

NORTHWEST PIPE CO
Form S-3
October 10, 2006
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As filed with the Securities and Exchange Commission on October 10, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

NORTHWEST PIPE COMPANY

(Exact name of registrant as specified in its charter)

Oregon
(State or other jurisdiction of
incorporation or organization)

200 SW Market Street, Suite 1800

Portland, Oregon 97201

503-946-1200

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Brian W. Dunham

President and Chief Executive Officer

93-0557988
(I.R.S. Employer
Identification No.)

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Northwest Pipe Company

200 SW Market Street, Suite 1800

Portland, Oregon 97201

503-946-1200

(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:

Gregory E. Struxness, Esq.

Christopher M. Kelly, Esq.

Brenda L. Meltebeke, Esq.

Jones Day

Ater Wynne LLP

222 East 41st Street

222 SW Columbia, Suite 1800

New York, New York 10017-6702

Portland, Oregon 97201

(212) 326-3939

(503) 226-1191

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:

As soon as practical after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest investment plans, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. "

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. "

CALCULATION OF REGISTRATION FEE

| Title Of Each Class Of Securities To Be Registered | Amount To Be Registered(1) | Proposed Maximum Offering Price Per Share(2) | Proposed Maximum Aggregate Offering Price(1)(2) | Amount Of Registration Fee |
|---|-------------------------------|---|--|-------------------------------|
|---|-------------------------------|---|--|-------------------------------|

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| | | | | | | | |
|---|-----------|----|-------|----|------------|----|----------|
| Common stock, \$0.01 par value per share(3) | 1,955,000 | \$ | 29.94 | \$ | 58,532,700 | \$ | 6,263.00 |
|---|-----------|----|-------|----|------------|----|----------|

- (1) Includes common stock issuable upon exercise of the underwriters' over-allotment option.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) based on the average high and low sales prices of our common stock on the Nasdaq Global Select Market on October 2, 2006, which date is within five business days prior to filing.
- (3) Each share of common stock includes one Preferred Stock Purchase Right. Prior to the occurrence of certain events, the Preferred Stock Purchase Rights will not be exercisable, evidenced or traded separately from the common stock.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 10, 2006

1,700,000 Shares

Common Stock

We are offering 1,700,000 shares of our common stock. Our common stock is quoted on the Nasdaq Global Select Market under the symbol NWPX. The last reported sale price of our common stock on the Nasdaq Global Select Market on October 9, 2006 was \$30.17 per share.

Investing in our common stock involves risks. See **Risk Factors** beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Share | Total |
|--|------------------|--------------|
| Public Offering Price | \$ | \$ |
| Underwriting Discounts and Commissions | \$ | \$ |
| Proceeds to Us, Before Expenses | \$ | \$ |

We have granted the underwriters a 30-day option to purchase up to an additional 255,000 shares of common stock to cover over-allotments.

The underwriters expect to deliver the shares on or about _____, 2006.

Jefferies & Company

D.A. Davidson & Co.

The date of this prospectus is _____, 2006.

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You should rely only on the information contained in or incorporated by reference into this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where their offer or sale is not permitted. You should not assume that information appearing in or incorporated by reference into this prospectus is accurate as of any date other than the date mentioned on the front cover of this prospectus or the date of the document incorporated by reference, as applicable. Our business, financial condition, results of operations and prospects may have changed since those dates.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary may not contain all of the information that you should consider before investing in our common stock. We urge you to read this entire prospectus carefully, including the Risk Factors section, our consolidated financial statements and the notes thereto and the documents incorporated by reference into this prospectus. In this prospectus, unless the context requires otherwise, we, us, our and Northwest Pipe refer to Northwest Pipe Company and its consolidated subsidiaries.

Our Business

We are a leading North American manufacturer of large-diameter, high-pressure steel pipeline systems for use in water infrastructure applications, primarily related to drinking water systems. Our pipeline systems are also used for hydroelectric power systems, wastewater systems and other applications. With a history that dates back more than 100 years, we have established a leading position based on a strong, widely recognized reputation for quality and service and an extensive array of product offerings. Our manufacturing facilities are strategically located throughout North America to provide us with broad geographic coverage of our target markets, giving us competitive advantages in serving our customers.

We manufacture water infrastructure products through our Water Transmission Group, which in 2005 generated approximately 70% of our net sales. We market our water infrastructure products through an in-house sales force comprised of sales representatives, engineers and support personnel who work closely with public water agencies, contractors and engineering firms, often years in advance of projects being bid. This allows us to not only identify and evaluate planned projects at early stages, but also to participate in the engineering and design process and ultimately promote the advantages of our systems. Our sales have historically been driven by the need for new water infrastructure, which is based primarily on overall population growth and population movement between regions. We believe the need for new water infrastructure will continue to be a significant growth driver for us and, importantly, will be accompanied by the increasing need for water infrastructure upgrades, repairs and replacements due to the aging and outdated water infrastructure systems throughout North America.

In addition to manufacturing water infrastructure products, we also manufacture other welded steel products through our Tubular Products Group and our Fabricated Products Group, which in 2005 generated approximately 25% and 5%, respectively, of our net sales. Our Tubular Products Group has the capability to manufacture a broad array of small-diameter, electric resistance welded, or ERW, steel pipe for use in a wide range of applications, including construction, agricultural, industrial, energy and traffic signpost systems. Our Fabricated Products Group manufactures a variety of aboveground and underground liquid propane storage tanks for residential, commercial and industrial applications. Over the past year, our Fabricated Products Group has developed several new products that we are currently marketing to OEMs in the transportation, energy and water industries.

The mailing address and telephone number of our principal executive offices are 200 SW Market Street, Suite 1800, Portland, Oregon 97201 and (503) 946-1200. Our website is www.nwpipe.com. Information contained on or accessible through our website is not a part of this prospectus.

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Our Industries

Water Transmission

The U.S. market for water delivery equipment and systems is estimated to be approximately \$11 billion annually. Within this market, we focus on engineered pipeline systems that utilize large-diameter, high-pressure steel pipe. In addition to these water infrastructure applications, our Water Transmission Group manufactures products for certain structural piling applications and in-plant pipeline systems for power plants and other industrial applications. We believe the current addressable market for the products sold by our Water Transmission Group is approximately \$750 million to \$850 million. Our core market is the large-diameter, high-pressure portion of the pipeline that is typically at the upper end of a pipeline system. This is the portion of the overall water pipeline that generally transports water from the source to a treatment plant or from a treatment plant into the distribution system, rather than the small lines that deliver water directly into households. However, we also have the ability to produce small-diameter pipe.

A combination of population growth and movement to new population centers, substantial under-investment in water infrastructure over the past several decades and an increasingly stringent regulatory environment are driving considerable and growing demand for water infrastructure products in the United States. These trends are increasing the need for new water infrastructure as well as the need to upgrade, repair and replace existing water infrastructure, which we believe will significantly increase the demand for our water infrastructure products and other products related to water transmission and distribution.

The primary drivers of growth in new water infrastructure installation are population growth and movement. According to the U.S. Census Bureau, the population of the United States will increase by over 80 million people between 2000 and 2030. The resulting increase in demand will require substantial new infrastructure, as the existing U.S. water infrastructure is not equipped to provide water to millions of new residents. The combination of population growth and movement is projected to result in more than 70 million new residents in the southern and western regions of the United States. Our manufacturing facilities are well located to take advantage of the anticipated growth in these regions.

Many authorities, including the U.S. Environmental Protection Agency, or EPA, believe the U.S. water infrastructure is in critical need of an update. With the average age of water transmission pipes in the United States approaching 70 years, much of the U.S. water infrastructure is antiquated and requires upgrade, repair or replacement. Some water transmission pipelines in the United States are over 100 years old, and the American Society of Civil Engineers has given poor ratings to many aspects of the U.S. water infrastructure in a recent study. By 2020, approximately 44% of the water pipe in the United States will be classified as poor to life-elapased if renewal or replacement of the existing infrastructure does not occur. In its third national assessment of public water system infrastructure, the EPA in 2005 estimated that a total investment of approximately \$277 billion will be needed to install, upgrade and replace infrastructure over the next 20 years. The EPA estimates that approximately \$184 billion of this needed investment applies to the rehabilitation or replacement of deteriorated or undersized water transmission and distribution infrastructure.

Increased public awareness of problems with the quality of drinking water and efficient water usage has resulted in more stringent application of federal and state environmental regulations. The need to

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comply with these regulations in an environment of heightened public awareness towards water issues is expected to contribute significantly to growth in the water infrastructure industry over the next several years. Water systems will need to be installed, upgraded and replaced in order to satisfy these water quality laws and regulations while overall demand for water continues to increase.

Tubular Products

The tubular products industry encompasses a wide variety of products serving a diverse group of end markets. We have been active in several of these markets, including fence framework, mechanical tubing, agriculture, energy, traffic signpost systems, fire protection sprinkler systems and structural tubing. Currently, we are focusing our efforts on products for which we believe we have sustainable advantages, and we are reducing our production of commodity products that are subject to heavy import competition. Within our focus markets, we believe both traffic signpost systems and energy products offer significant growth opportunities. We manufacture several different signpost systems and believe this business will grow over the next several years as our systems become adopted in additional states and jurisdictions. Our sales to the energy market have grown substantially in the past two years. We are currently manufacturing products for the energy market under a marketing agreement with Lone Star Steel and expect to see continued growth in sales as we expand this product line.

Fabricated Products

The overall metal fabrication industry is extremely diverse, covering a wide range of products and end markets. Within this industry, our Fabricated Products Group currently focuses on propane tanks. Our tanks, ranging in size from 120 gallons to 1,000 gallons, comprise the vast majority of our production today. Propane tanks are sold to gas dealers for home heating, agricultural and light industrial applications. Over the past two years, we have diversified into other segments of the broader metal fabrication industry and now offer tanks and other metal components to OEMs. Examples of these products include components used in industrial heat exchangers, tanks used for compressed air systems, specialty vessels used in material handling systems and tanks used in oil and gas processing. We are also evaluating several opportunities that will provide components for medium and heavy trucks.

Competitive Strengths

We believe we enjoy a number of important competitive strengths that drive our success, differentiate us from our competitors and support our market positions, including:

Recognized Industry Leader. We are a leading supplier of large-diameter, high-pressure steel pipeline systems for water infrastructure in North America. We have a long and distinguished history as a manufacturer of steel pipe for water infrastructure systems dating back over 100 years, providing us with a widely recognized reputation as an industry leader based on quality and service. This reputation, coupled with strong relationships with public water agencies, contractors and engineering firms, places us in an advantageous position in bidding for many potential projects.

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Full Range of High-Quality Products and Capabilities. We believe we provide the most extensive array of large-diameter, high-pressure, welded steel pipeline systems for water infrastructure in North America. We are capable of producing custom-designed welded steel pipe up to 156 inches in diameter and 60 feet in length. We offer custom fabrication, coatings and linings, and complete engineered systems that meet the most rigorous standards. Additionally, our computer-aided design, technical expertise and in-house testing ensure that all projects meet the highest standards of reliability. In 2006, we registered our internationally accepted ISO-quality systems to multi-site status to provide uniform quality compliance across all our facilities in the United States, and we expect our Monterrey, Mexico facility to reach this status by the end of 2006. Our quality management system emphasizes continuous improvement and ensures that we consistently provide products that meet or exceed customer and applicable regulatory requirements. Additionally, we emphasize customer service during and following installation and supply a full range of support and field services.

Strategic Location of Manufacturing Facilities. We have broad geographic coverage of our markets due to our strategically located manufacturing facilities, positioning us as the only truly national manufacturer of steel pipeline systems for water infrastructure. Our multiple facilities provide the ability to meet tight customer deadlines by supplying products from more than one plant when necessary and allow us to shift projects between plants to maximize capacity utilization and market coverage. We believe our proximity to customers is a significant competitive advantage over more distant, regional competitors because we are able to minimize the cost of transportation.

Proactive Sales and Marketing Effort. Our dedicated sales force and engineering teams work directly with municipalities and others in order to identify projects well in advance of bidding. As water infrastructure projects are developed, our engineers are often consulted on potential design issues and provide information to agencies and others to assist in their design efforts. We also expend considerable effort in building relationships with contractors and engineering firms, facilitating our work in the bidding process. We believe we are competitive in nearly all large-diameter, high-pressure water infrastructure pipeline projects in the United States due to (1) our ability to manufacture solutions that are tailored to the specific needs of a project, including customizing to meet a wide variety of design requirements and installation contractors' plans, (2) our widely recognized reputation for quality products, engineering and service and (3) our broad geographic reach.

Low-Cost Manufacturing and Sourcing Capabilities. We believe our manufacturing facilities are generally cost competitive across a broad range of products. Our plants were constructed or acquired at relatively low cost and have remained efficient through investments in manufacturing technologies and equipment. Combining our efficient production with our national platform typically positions us as the low-cost producer on a delivered basis for the majority of projects on which we bid. Additionally, we believe we are able to achieve favorable raw material pricing due to the large volume of steel that we consume.

Well Positioned in Niche Markets in Tubular Products. A portion of our business involves the manufacture of tubular products with light wall thicknesses relative to diameters. These products are sold in niche markets that have limited competition and typically generate high margins. We believe we are well positioned to maintain our competitive position in these products while focusing on growth in larger markets, including traffic signpost and energy markets.

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Highly Experienced and Proven Management Team. Our senior management team has extensive operating experience, with, on average, more than 21 years of experience in the industry and a proven track record, enabling us to recognize and capitalize upon attractive opportunities in our key markets. In addition, we have a talented, experienced and dedicated mid-level management group across our business segments. We believe the vision, strength and experience of our management team continue to contribute to our profitability and that the strategies and initiatives we have developed and implemented in recent years position us for sustained improvement in shareholder value.

Business Strategy

Our business strategy is focused on sustaining and building the market leadership position of our Water Transmission Group, while growing revenues and enhancing profitability in our Tubular Products Group and Fabricated Products Group. Key elements of our strategy are to:

Capitalize on Growth in Attractive Water Infrastructure Industry. We are capitalizing on the projected growth in the water infrastructure industry by leveraging our strong reputation, quality, diversified products, broad geographic reach, low costs and extensive distribution channels and relationships. We have a leading position in the markets we currently serve and will expand our distribution channels and customer relationships to pursue new opportunities. We believe the growing and shifting population of the United States will continue to fuel demand for new water infrastructure, while the significant need for water infrastructure replacement in the United States will drive our industry in the years ahead.

Develop New Markets for Product Lines. We are actively developing and expanding our existing product lines into new markets. We are pursuing opportunities in structural piling, industrial pipeline and power plant pipeline systems. We believe these markets represent a clear opportunity for growth, and we have been successful on a number of these types of projects in 2006. Utilizing our current production facilities to expand into these new markets should increase our capacity utilization and, as a result, reduce our overall costs on a per unit basis.

Pursue New Opportunities in Complementary Product Lines. We are pursuing new products and services that are complementary to our water infrastructure pipeline systems, focusing on products and services that can be sold through the same distribution channels and to the same customers that we currently serve. By extending our offerings into these related products and services, we will increase the size of our market within the water infrastructure industry. Additionally, by offering our customers a wider range of products and services in connection with specific water infrastructure projects, we may capture a larger share of our current market.

Expand International Market Reach and Presence. We believe international expansion is a natural element in our growth strategy for several aspects of our business, including manufacturing, purchasing and sales. We have maintained an international manufacturing presence since 1998 through our facility in Monterrey, Mexico and are currently evaluating potential strategic relationships in China for manufacturing and sourcing materials. To date, we have sold products in 11 countries, with the majority of our international projects located in Latin America. We are also bidding on projects in North Africa and the Middle East. We believe there is an opportunity to add significant revenue based on increasing our international presence.

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Focus on Competitive Advantages in Tubular Products. We are seeking profitable growth opportunities for our Tubular Products Group in areas where we can maintain competitive advantages while reducing our reliance on commodity products that are subject to heavy import competition. At our Houston, Texas facility, we are focusing on manufacturing traffic signpost systems, while at our Atchison, Kansas facility we are focusing on our rapidly growing energy product line, as well as our historical product mix.

Grow into Higher Value-Added Segments in Fabricated Products. We believe our Fabricated Products Group has substantial growth opportunities due to the combination of our ability to perform complex fabrication and our low cost structure. We are currently pursuing prototypes and trial orders for fabricated vessels and other metal components for OEMs in the transportation, energy and water industries. In addition, we are beginning to produce specially fabricated pipeline parts at our Monterrey, Mexico facility for use in water infrastructure projects throughout the United States.

Continue Focus on Operational Efficiency and Reducing Costs. We continually seek opportunities to improve our manufacturing facilities and use our substantial manufacturing expertise to further reduce our cost structure and increase our margins. Currently, we have identified a number of capital and operational improvements, including facility upgrades, revisions to material flow processes and other refinements, which will allow us to improve our overall efficiency.

Maintain Best-in-Class Engineering, Technical Excellence and Superior Quality. We are committed to manufacturing high quality products that exceed customer expectations, with an emphasis on products that are safe, strong, durable and adaptable. We continue to pursue superior product engineering, design and innovation through our technologically-advanced manufacturing processes. Specific initiatives include:

Acquiring the exclusive rights to a coating used for water infrastructure pipeline systems known as Pritec®.

Developing a new joint for steel pipe that has significant installation advantages.

Developing a state-of-the-art pipeline design and layout system.

Developing an internal industrial engineering department that has produced much of our own equipment.

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The Offering

Common stock offered by us 1,700,000 shares

Common stock to be outstanding after this offering 8,568,720 shares

Use of proceeds We expect to use the net proceeds from this offering to purchase equipment we lease under operating leases and repay borrowings under our credit facility. See Use of Proceeds.

Over-allotment option We have granted the underwriters an option to purchase up to an additional 255,000 shares solely to cover over-allotments.

Risk Factors You should carefully read and consider the information set forth in Risk Factors beginning on page 9 of this prospectus before investing in our common stock.

Nasdaq Global Select Market symbol NWPX

The number of shares to be outstanding after the offering is based on the number of shares outstanding as of September 30, 2006. Unless we specifically state otherwise, the information contained in this prospectus:

is based on the assumption that the underwriters will not exercise the over-allotment option granted to them by us; and

excludes 697,578 shares of common stock reserved for issuance upon the exercise of options granted under our stock option plans.

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The following table sets forth our summary consolidated financial data as of the dates and for the periods shown. The Balance Sheet Data as of December 31, 2005, 2004 and 2003 and the Statement of Operations Data and Statement of Cash Flow Data for the years then ended are derived from our audited consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The Balance Sheet Data as of June 30, 2006 and 2005 and the Statement of Operations Data and Statement of Cash Flow Data for the six-month periods then ended are derived from our unaudited consolidated financial statements. We have prepared our unaudited consolidated financial statements on the same basis as our audited consolidated financial statements. In the opinion of management, our unaudited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations for such periods. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or any other future period. You should read the summary consolidated financial data presented below in conjunction with Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the notes thereto included elsewhere in this prospectus.

| | Year Ended December 31, | | | Six Months Ended June 30, | |
|--|---------------------------------------|------------|------------|---------------------------|------------|
| | 2005 | 2004 | 2003 | 2006 | 2005 |
| | (unaudited) | | | | |
| | (in thousands, except per share data) | | | | |
| Statement of Operations Data: | | | | | |
| Net sales | \$ 329,006 | \$ 291,910 | \$ 244,987 | \$ 156,674 | \$ 165,184 |
| Gross profit | 53,790 | 49,296 | 33,228 | 25,268 | 25,922 |
| Gross profit percentage | 16.3% | 16.9% | 13.6% | 16.1% | 15.7% |
| Operating income | 27,472 | 26,170 | 10,935 | 19,632 | 13,389 |
| Income before income taxes | 20,089 | 19,824 | 5,725 | 16,145 | 9,787 |
| Net income | 13,386 | 12,377 | 3,531 | 9,961 | 6,019 |
| Net income per basic share | \$ 1.97 | \$ 1.87 | \$ 0.54 | \$ 1.45 | \$ 0.89 |
| Net income per diluted share | 1.90 | 1.83 | 0.53 | 1.40 | 0.86 |
| Weighted average shares used in net income per basic share | 6,781 | 6,618 | 6,553 | 6,848 | 6,731 |
| Weighted average shares used in net income per diluted share | 7,063 | 6,768 | 6,660 | 7,128 | 7,012 |
| Statement of Cash Flow Data: | | | | | |
| Depreciation and amortization | \$ 5,451 | \$ 6,203 | \$ 4,694 | \$ 1,846 | \$ 2,683 |
| Capital expenditures | 18,502 | 11,995 | 11,115 | 15,513 | 11,016 |
| Balance Sheet Data (as of period end): | | | | | |
| Working capital | \$ 150,428 | \$ 97,932 | \$ 71,023 | \$ 137,260 | \$ 109,014 |
| Total assets | 338,485 | 335,403 | 280,010 | 346,714 | 341,984 |
| Short-term debt (including current portion of long-term obligations) | 9,361 | 40,199 | 41,477 | 9,313 | 55,033 |
| Long-term debt, less current portion | 94,931 | 59,689 | 35,914 | 84,751 | 58,599 |
| Total debt | 104,292 | 99,888 | 77,391 | 94,064 | 113,632 |
| Stockholders' equity | 159,465 | 144,152 | 131,651 | 170,065 | 151,817 |
| Other Data (as of period end): | | | | | |
| Backlog | \$ 125,579 | \$ 128,879 | \$ 73,783 | \$ 163,286 | \$ 149,967 |

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RISK FACTORS

You should carefully consider the following risks and uncertainties, and all other information contained in or incorporated by reference into this prospectus, before you decide to purchase our common stock. Additional risks and uncertainties not presently known to us, or risks that we currently consider immaterial, may also impair our business, financial condition or results of operations. Any of the following risks, should they materialize, could adversely affect our business, financial condition or results of operations. As a result, the trading price of our common stock could decline, and you could lose all or part of your investment.

A downturn in government spending related to public water transmission projects would adversely affect our business.

Our water transmission business accounted for approximately 70% of our net sales in 2005. Our water transmission business is primarily dependent upon spending on public water transmission projects, including water infrastructure upgrades, repairs and replacement and new water infrastructure spending, which, in turn, depends on, among other things:

the need for new or replacement infrastructure;

the priorities placed on various projects by governmental entities;

federal, state and local government spending levels, including budgetary constraints related to capital projects and the ability to obtain financing; and

the ability of governmental entities to obtain environmental approvals, right-of-way permits and other required approvals and permits. Decreases in the number or government funding of public water transmission projects would adversely affect our business, financial condition and results of operations.

Project delays in public water transmission projects could adversely affect our business.

The public water agencies constructing water transmission projects generally announce the projects well in advance of the bidding and construction process. It is not unusual for projects to be delayed and rescheduled. Projects are delayed and rescheduled for a number of reasons, including changes in project priorities, difficulties in complying with environmental and other government regulations and additional time required to acquire rights-of-way or property rights. Delays in public water transmission projects may occur with too little notice to allow us to replace those projects in our manufacturing schedules. As a result, our business, financial condition and results of operations may be adversely affected by unplanned downtime.

We operate in highly competitive industries, and increased competition could reduce our gross profit and net income.

We face significant competition in all of our businesses. Orders in the water transmission business are competitively bid, and price competition can be vigorous. Price competition may reduce the gross margin on sales, which may adversely affect overall profitability. Other competitive factors include timely

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delivery, ability to meet customized specifications and high freight costs. Although our water transmission manufacturing facilities in Oregon, Colorado, California, West Virginia and Texas allow us to compete effectively throughout the United States, Canada and Mexico, we cannot assure you that new or existing competitors will not establish new facilities or expand capacity within our market areas. New or expanded facilities or new competitors could have a material adverse effect on our ability to capture market share and maintain product pricing in our water transmission business. There are many competitors in the tubular products and fabricated products businesses, and price is often a prime consideration for purchase of our products. Price competition may reduce our gross profit, which may adversely affect our net income. Some of our competitors have greater financial, technical and marketing resources than we do. We cannot assure you that we will be able to compete successfully with our competitors. Failure to compete successfully could reduce our gross profit and net income, as well as have a material adverse effect on our business, financial condition and results of operations.

Operating problems in our business could adversely affect our business, financial condition and results of operations.

Our manufacturing operations are subject to typical hazards and risks relating to the manufacture of products such as:

explosions, fires, inclement weather and natural disasters;

mechanical failure;

unscheduled downtime;

labor difficulties;

an inability to obtain or maintain required licenses or permits; and

environmental hazards such as chemical spills, discharges or releases of toxic or hazardous substances or gases into the environment or workplace.

The occurrence of any of these operating problems at our facilities may have a material adverse effect on the productivity and profitability of a particular manufacturing facility, or on our operations as a whole, during and after the period of these operating difficulties. These operating problems may also cause personal injury and loss of life, severe damage to or destruction of property and equipment, and environmental damage. In addition, individuals could seek damages for alleged personal injury or property damage. Furthermore, we could be subject to present and future claims with respect to workplace exposure, workers' compensation and other matters. Although we maintain property and casualty insurance of the types and in the amounts that we believe are customary for our industries, we cannot assure you that our insurance coverage will be adequate for liability that may be ultimately incurred or that such coverage will continue to be available to us on commercially reasonable terms. Any claims that result in liability exceeding our insurance coverage could have an adverse effect on our business, financial condition and results of operations.

Our water transmission business faces competition from concrete and ductile iron pipe manufacturers.

Water transmission pipe is manufactured generally from steel, concrete or ductile iron. Each pipe material has advantages and disadvantages. Steel and concrete are more common materials for larger

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diameter water transmission pipelines because ductile iron pipe generally is limited in diameter due to its manufacturing process. The public agencies and engineers who determine the specifications for water transmission projects analyze these pipe materials for suitability for each project. Individual project circumstances normally dictate the preferred material. If we experience cost increases in raw materials, labor and overhead specific to our industry or the location of our facilities, while competing products or companies do not experience similar changes, we could experience an adverse change in the demand, price and profitability of our products, which could have a material adverse effect on our business, financial condition and results of operations.

Our quarterly results of operations are subject to significant fluctuation.

Our net sales and operating results may fluctuate significantly from quarter to quarter due to a number of factors, including:

the schedule of production of water transmission orders, including unplanned down time due to project delays;

the commencement, completion or termination of contracts during any particular quarter;

the seasonal variation in demand for tubular products and fabricated products;

fluctuations in the cost of steel and other raw materials; and

competitive pressures.

Results of operations in any period are not indicative of results for any future period, and comparisons between any two periods may not be meaningful.

We depend on our senior management team, and the loss of any member could adversely affect our operations.

Our success depends on the management and leadership skills of our senior management team. The loss of any of these individuals, particularly Brian W. Dunham, our president and chief executive officer, or our inability to attract, retain and maintain additional personnel, could prevent us from fully implementing our business strategy. We cannot assure you that we will be able to retain our existing senior management personnel or to attract qualified personnel when needed. We have not entered into employment agreements with any of our senior management personnel.

The success of our business is affected by general economic conditions, and our business may be adversely affected by an economic slowdown or recession.

Periods of economic slowdown or recession in the United States, or the public perception that one may occur, could decrease the demand for our products, affect the price of our products and adversely impact our business. We have been impacted in the past by the general slowing of the economy and any future economic slowdowns could have an adverse impact on our business, financial condition and results of operations.

Fluctuations in steel prices may affect our future results of operations.

Purchased steel represents a substantial portion of our cost of sales, particularly in our tubular products and fabricated products businesses. The steel industry is highly cyclical in nature, and, at times, pricing

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can be highly volatile due to a number of factors beyond our control, including general economic conditions, import duties, other trade restrictions and currency exchange rates. This volatility can significantly affect our gross profit. Although we seek to recover increases in steel prices through price increases in our products, we have not always been completely successful. For example, in 2003, when the price of steel increased, we were unable to pass along the price increase to our customers, which adversely affected our results of operations. Any similar increase in steel prices that is not offset by an increase in our prices could have an adverse effect on our business, financial condition and results of operations.

We may be subject to claims for damages for defective products, which could adversely affect our business, financial condition and results of operations.

We warrant our products to be free of certain defects. Losses may result or be alleged to result from defects in our products, which could subject us to claims for damages, including consequential damages. For example, in July 2004, we settled a product liability class action suit relating to small-diameter, thin-walled fire sprinkler pipe. Pursuant to the terms of the settlement, if the remaining insurance funds of approximately \$2.4 million are exhausted, we would be obligated to pay class members who have a qualifying leak at any time from July 7, 2004 to July 7, 2019 an aggregate of up to \$500,000 per year for qualifying claims (or up to \$1.0 million per year in the three years following July 7, 2019 for qualifying claims previously submitted). We cannot assure you that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend such claims. While we currently have product liability insurance, we cannot assure you that our product liability insurance coverage will be adequate for liability that may be ultimately incurred or that such coverage will continue to be available to us on commercially reasonable terms. Any claims relating to defective products that result in liability exceeding our insurance coverage could have an adverse effect on our business, financial condition and results of operations.

Sustained increases in fuel costs could have an adverse impact on our profitability.